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SUBJECT: NIGERIA: NITEL PRIVATIZATION DELAYED

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1. Summary. The GON recently announced a two-month delay in the privatization of Nigerian Telecommunications, Ltd. (NITEL) originally scheduled for September 2001. According to BPE Advisor Michael Dan, NITEL's privatization would more likely be delayed until February-March 2002 and may not attract top-notch international telecommunications companies due to an uncertain regulatory environment. End Summary.

2. In August, press reports revealed that the GON had decided to extend the period for interested companies to conduct due diligence on NITEL's accounts. As a result of the extension, the Bureau of Public Enterprises (GON privatization agency) released a statement that the GON would not choose an investor until early November. On September 12, Econoff met with Michael Dan, who heads a five-person team of USAID-sponsored advisors to the Bureau of Public Enterprises (BPE) to discuss the delay.

3. The extension, according to Dan, was granted because the information memorandum for investors was not ready. This memo is to provide interested buyers with information on NITEL's accounts and other sale details. Although the memorandum has now been sent to prospective investors, the audits of NITEL accounts are not finished. Specifically, account information regarding receivables and pensions may not be accurate, said Dan.

4. Dan insisted that these delays were technical and did not reflect a lack of political will to proceed with the privatization. He asserted that the original schedule had been much too ambitious, commenting that "Nigerian officials would argue that the current timetable of November is still very accelerated." In fact, Dan suggested that the November timeframe was not realistic either; "the privatization will not occur until February-March 2002," he said. Once the buyer is identified, negotiations between the buyer and the GON regarding telecommunications regulations would ensue. Dan commented that these negotiations could stretch on for months due to Nigeria's uncertain regulatory environment.

5. The regulatory structure for the telecommunications industry is in flux; a draft telecommunications bill is before the National Assembly and, therefore, subject to change. Dan argued that the uncertain environment generated by the absence of a clear regulatory structure would make the negotiations between the GON and the buyer difficult; even a one Naira change in the maximum local telephone rate would have a major impact on the buyer's offer terms. Moreover, Dan pointed out, once the GON had divested itself of NITEL, its only interest in telecommunications would be to keep prices low.

6. Dan asserted that these uncertainties would likely dissuade first class international telecommunications companies from bidding on NITEL. He anticipated that NITEL's sale price would end up much lower than the GON expected. He also hypothesized that the buyer would likely be an insider who has been able to obtain assurances that the telecommunications bill would be favorable to their interests.

7. Comment. The GON has established an extremely ambitious privatization schedule in order to satisfy pressures from the IMF and international donor community. Consequently, delays in the schedule are likely to occur frequently. Moreover, if the IMF decides not to extend its program in Nigeria, the GON would likely lessen its focus on the privatization program in general. End Comment.
Andrews